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Message Text

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C O N F I D E N T I A L STATE 049552

FOLLOWING REPEAT OECD PARIS 06118 SENT ACTION SECSTATE 02 MAR 77

QUOTE C O N F I D E N T I A L OECD PARIS 06118

E.O. 11652: GDS
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TAGS: ENRG, OECD
SUBJECT: IEA: SLT REPORT ON THE REVIEW OF ENERGY
PROGRAMS IN THE IEA COUNTRIES IEA/GB(77)13

BEGIN TEXT:
IN 1976 IT BECAME APPARENT THAT THE REDUCTION IN
ENERGY CONSUMPTION IN IEA COUNTRIES WHICH OCCURRED IN
1974 AND 1975 WAS PRIMARILY CAUSED BY THE MARKED
REDUCTION IN ECONOMIC ACTIVITY, BY RAPID AND SUBSTANTIAL
INCREASES IN WORLD OIL PRICES AND OTHER REASONS

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EXTRANEOUS TO THE ENERGY POLICIES ESTABLISHED BY IEA GOVERNMENTS. AS A RESULT, THERE WAS GROWING UNCERTAINTY THAT THESE ENERGY PROGRAMS WOULD BE ADEQUATE TO ACHIEVE THE DESIRED BALANCE OVER THE LONG TERM BETWEEN SUPPLY AND DEMAND NECESSARY TO REDUCE OUR ECONOMIC AND POLITICAL VULNERABILITY DUE TO HEAVY DEPENDENCE ON OIL IMPORTS.

IN RESPONSE, THE GOVERNING BOARD ON 9TH NOVEMBER, 1976 INSTRUCTED THE STANDING GROUP ON LONG TERM COOPERATION TO "REVIEW THE NATIONAL AND COOPERATIVE POLICIES AND PROGRAMS ADOPTED OR PROPOSED BY PARTICIPATING COUNTRIES AND SUBJECT THEM TO SCRUTINY AS TO THE RESULTS THEY ARE EXPECTED TO ACHIEVE". THE SLT WAS ALSO INSTRUCTED TO:

- ASSESS THE LEVEL OF OIL EXPECTED TO BE AVAILABLE BASED ON ALL RELEVANT CONSIDERATIONS, AND
- COMPARE THE LEVEL OF IEA OIL DEMAND RESULTING FROM THE POLICIES ADOPTED OR PROPOSED BY PARTICIPATING COUNTRIES AGAINST THE LEVEL OF OIL EXPECTED TO BE AVAILABLE.

IF THIS COMPARISON DID NOT INDICATE A DESIRABLE BALANCE BETWEEN SUPPLY AND DEMAND, THE SLT WAS INSTRUCTED TO "PREPARE, FOR THE GOVERNING BOARD, SUGGESTIONS FOR REINFORCING THESE POLICIES".

THE SLT HAS NOW COMPLETED A FIRST REVIEW OF THE ENERGY PROGRAMS AND POLICIES IN IEA COUNTRIES. THIS CONFIDENTIAL

REVIEW WAS BASED ON INFORMATION DRAWN PRINCIPALLY FROM MEMBER COUNTRIES' SUBMISSIONS TO THE EARLIER IEA REVIEWS OF NATIONAL CONSERVATION, ACCELERATED DEVELOPMENT AND NUCLEAR PROGRAMS.

ON THE BASIS OF A REVIEW OF EACH COUNTRY'S ENERGY PROGRAM, A REPORT WAS PREPARED COVERING THE STATUS OF ENERGY BALANCES SUBMITTED, THE ADEQUACY OF ENERGY MEASURES IN PLACE TO ATTAIN THESE BALANCES AND SUGGESTED WAYS IN WHICH ENERGY POLICIES IN MEMBER COUNTRIES COULD BE REINFORCED. (THE REPORTS OF THE SLT REVIEW OF EACH COUNTRY ARE AVAILABLE IN IEA/SLT(77)23, 29, 31 AND 47.)

THE SLT FINDINGS ARE SUMMARIZED BELOW:

SUMMARY

1. MEMBER COUNTRIES' SUBMISSIONS OF ENERGY SUPPLY/DEMAND BALANCES RESULT IN A PROJECTED LEVEL OF IEA DEPENDENCE ON IMPORTED OIL OF APPROXIMATELY 1,273 MTOE (25.5 MMBD) BY 1985.
2. THE SLT CONSIDERS THAT PROJECTED DEPENDENCE ON OIL OF 25.5 MMBD IN 1985 IS AT CONSIDERABLE RISK. THE UNCERTAINTIES SURROUNDING THE ACHIEVEMENT OF MEMBER COUNTRIES' POLICIES COULD RESULT IN SUBSTANTIAL SHORTFALLS; UNLESS THESE POLICIES ARE VIGOROUSLY REINFORCED, IEA OIL IMPORTS MIGHT RISE BY A CONSIDERABLE

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AMOUNT. THE POSSIBLE SHORTFALLS BY SECTRORIN IN 1985
COULD BE AS FOLLOWS:
OIL DEMAND - 162 MTOE# (3.2 MMBD)
NUCLEAR POWER - 114 MTOE (2.2 MMBD)
GAS PRODUCTION - 132 MTOE (2.6 MMBD)
GAS IMPORTS - 47 MTOE (1.0 MMBD)
OIL PRODUCTION - 125 MTOE (2.5 MMBD)
#MTOE'S HAVE BEEN USED THROUGHOUT FOR SIMPLICITY.
MMBD SHOULD BE UNDERSTOOD AS RELATING TO OIL EQUIVALENT.
HOWEVER, IT MUST BE RECOGNIZED THAT NOT ALL THE
POTENTIAL SHORTFALL WILL BE DIRECTLY TRANSLATED INTO
INCREASED OIL IMPORTS; MOREOVER THE SHORTFALL DUE TO
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HIGHER OIL DEMAND IS AN AREA OF ADDITIONAL UNCERTAINTY.
THEREFORE POSSIBLE IEA IMPORTS BY 1985 COULD BE IN THE
RANGE OF 31 TO 36 MMBD (1550 TO 1800 MTOE).
3. ESTIMATED NET OIL DEMAND FROM NON-IEA' NON-OPEC
COUNTRIES PLUS OPEC INTERNAL CONSUMPTION, AND ALL
BUNKERS, COULD ADD AS MUCH AS 11 TO 13 MMBD (550 TO
650 MTOE). THUS THE TOTAL DEMAND FOR OPEC OIL COULD BE
IN THE RANGE OF 42 TO 49 MMBD (2100 TO 2450 MTOE) BY
1985.
4. THE SLT ESTIMATED THE PHYSICAL OIL PRODUCTION
CAPACITY OF OPEC COUNTRIES BY 1985 AT 2200 MTOE (44 MMBD)
WHILE OPEC'S PREFERRED OIL PRODUCTION LEVEL, TAKING INTO
ACCOUNT POLITICAL AND ECONOMIC CONSIDERATIONS, WAS
ESTIMATED AT ABOUT 35 MMBD (1750 MTOE).
5. WHILE CONSIDERABLE UNCERTAINTY EXISTS WITHIN THIS
RANGE (35-44 MMBD), THE SLT CONSIDERS THE LOWER END OF
THIS RANGE TO BE MORE LIKELY. THESE PROJECTIONS OF
DEMAND FOR OPEC OIL THEREFORE LEAD TO A "DEMAND GAP",
I.E. A VOLUME OF OIL WHICH OPEC COUNTRIES ARE EITHER
UNLIKELY OR UNWILLING TO SUPPLY.
6. THIS DEMAND GAP IMPLIES (A) THE RELATIVE DEPENDENCE
OF IEA COUNTRIES ON OPEC OIL IS LIKELY TO INCREASE,
UNLESS PRESENT ENERGY POLICIES ARE STRENGTHENED;
(B) OPEC WILL BE ABLE TO MAINTAIN AND INCREASE THE REAL
PRICE OF OIL IMPORTS; AND (C) THE COST AND RELIABILITY
OF OIL SUPPLIES WILL REMAIN SUBJECT TO SUBSTANTIAL
UNCERTAINTY.
CONCLUSIONS
THE ANALYSIS SUMMARIZED ABOVE IS DESCRIBED IN MORE
DETAIL IN THE FOLLOWING SECTIONS.
A. STATUS OF ENERGY BALANCES
THERE IS NO CONSISTENT PATTERN AMONGST IEA MEMBERS
IN THEIR TREATMENT OF ENERGY BALANCES. MOST COUNTRIES
CONSIDER 1985 BALANCES AS "BEST ESTIMATES" OR
"FORECASTS" RATHER THAN A COMMITMENT BY THE GOVERNMENT
TO ACHIEVE CERTAIN OBJECTIVES.
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SOME COUNTRIES HAVE ESTABLISHED SPECIFIC ENERGY DEMAND OBJECTIVES E.G. TO REDUCE THE AVERAGE RATE OF GROWTH IN TOTAL PRIMARY ENERGY CONSUMPTION TO 3.5 PERCENT A YEAR (CANADA), OR SECTORAL SUPPLY OBJECTIVES, E.G. COAL PRODUCTION OF 135 MILLION TONS BY 1985 (UNITED KINGDOM). SOME COUNTRIES SUBMIT ENERGY PLANS TO LEGISLATURES WHICH, UPON APPROVAL, BECOME GOVERNMENT POLICY (DENMARK) WHILE OTHERS ENUNCIATE ENERGY OBJECTIVES ON THE BASIS OF THE EXPECTED EFFECT OF PROPOSED PROGRAMS (UNITED STATES).

MEMBER COUNTRIES' SUBMISSIONS OF ENERGY SUPPLY/ DEMAND BALANCES RESULT IN A PROJECTED LEVEL OF IEA DEPENDENCE ON IMPORTED OIL OF APPROXIMATELY 1,273 MTOE (25.5 MMBD) BY 1985. (THE UNITED KINGDOM PROVIDED A RANGE OF POSSIBLE OIL PRODUCTION BY 1985; THE SLT USED THE LOWER POINT ON THE RANGE TO ARRIVE AT TOTALS.) IT SHOULD BE NOTED THAT THIS TOTAL IS 50 MTOE (1 MMBD) HIGHER THAN THE AGGREGATED FORECAST DERIVED FROM COUNTRY ESTIMATES SUBMITTED TO THE RECENT NATIONAL REVIEW OF ACCELERATED DEVELOPMENT PROGRAMS, REFLECTING MODIFICATION BY SOME COUNTRIES OF THOSE SUBMISSIONS. ON THE BASIS OF THE SLT REVIEW, IT IS FAIR TO SAY THAT REALIZATION OF THE LATEST ESTIMATES BY IEA MEMBERS OF OIL IMPORT DEMAND IN 1985 IS SUBJECT TO CONSIDERABLE UNCERTAINTY CONSIDERING THE EXPECTED RESULTS OF SUPPLY/ DEMAND MEASURES NOW IN PLACE IN IEA MEMBER COUNTRIES.

B. ADEQUACY OF ENERGY PROGRAMS AND POLICIES

BASED ON THE REVIEW OF ENERGY POLICIES AND PROGRAMS IN PLACE IN MEMBER COUNTRIES, THE SLT CONSIDERS THAT THE LEVEL OF OIL IMPORTS BY 1985 BY IEA COUNTRIES COULD BE IN THE RANGE OF 31 MMBD TO 36 MMBD (1550 TO 1800 MTOE). THIS UPWARD REVISION IN THE EXPECTED LEVEL OF OIL IMPORTS IS THE RESULT OF THE SLT'S ASSESSMENT THAT:-

- THE NUMBER OF NUCLEAR POWER STATIONS EXPECTED TO BE IN OPERATION BY 1985 WILL BE LOWER THAN PROJECTED;
- THE LEVEL OF LNG IMPORTS EXPECTED TO BE AVAILABLE

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BY THAT DATE AND THE ABILITY OF MEMBER COUNTRIES' INFRASTRUCTURE TO ABSORB THE PROJECTED LEVEL OF GAS IMPORTS ARE SUBJECT TO UNCERTAINTY;

- THE EXPECTED LEVEL OF OIL AND GAS PRODUCTION IN THE UNITED STATES BY 1985 WILL BE APPRECIABLY LESS THAN PROJECTED;
- ENERGY PRICES IN SOME IEA COUNTRIES ARE NOT ALIGNED TO WORLD MARKET LEVELS;
- THE SIGNIFICANT REDUCTION SOME COUNTRIES IN ENERGY DEMAND GROWTH EXPECTED FROM CONSERVATION MEASURES NOW IN PLACE AND AS AN ADJUSTMENT TO HIGHER ENERGY PRICES BY 1985 IS AT RISK.

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THE SLT FINDINGS, BY SECTOR, ARE AS FOLLOWS:

1. NUCLEAR POWER

THE SLT REVISED DOWNWARDS GOVERNMENT ESTIMATES OF INSTALLED NUCLEAR CAPACITY BY 1985. IN 1975, NUCLEAR POWERED ELECTRICITY ACCOUNTED FOR 77 MTOE WHILE MEMBER GOVERNMENTS ESTIMATED THE SAME SOURCE WOULD PROVIDE 433 MTOE BY 1985. THE SLT CONSIDERED THAT SOME 114 MTOE OF THIS AMOUNT WAS CERTAINLY AT RISK AND AN INSTALLED NUCLEAR CAPACITY OF ABOUT 319 MTOE BY 1985 WAS MORE LIKELY.

THESE REVISIONS ASSUME THE FOLLOWING: (A) NUCLEAR PLANTS WHICH HAVE NOT BEEN APPROVED, SITED AND FINANCED BY 1977 WILL NOT BE IN OPERATION BY 1985, AND (B) THE LEVEL OF ELECTRICITY DEMAND PROJECTED BY MEMBER GOVERNMENTS IS ACCURATE. IF THIS SHORTFALL IS NOT OFFSET BY INCREASED USE OF ANOTHER FUEL OR MORE STRINGENT CONSERVATION MEASURES, IEA OIL IMPORTS BY 1985 COULD INCREASE BY 114 MTOE (ABOUT 2.3 MMBD).

2. GAS

(A) PRODUCTION

IEA COUNTRY SUBMISSIONS ESTIMATE NATURAL GAS PRODUCTION WILL INCREASE FROM 639 MTOE IN 1975 TO 778 MTOE IN 1985. THE SLT CONSIDERS THAT NATURAL GAS PRODUCTION WILL BE ABOUT THE SAME IN 1985 AS IT WAS IN

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1975. THERE WILL BE INCREASED GAS PRODUCTION FROM CANADA AND NORWAY; HOWEVER EXPECTED LOWER PRODUCTION LEVELS FROM THE UNITED STATES, UNLESS NATURAL GAS PRICES IN THE U.S. ARE PROMPTLY DEREGULATED AND LEVELS OF EXPLORATION INCREASED SUBSTANTIALLY, WILL RESULT IN A SIGNIFICANT REDUCTION IN NATURAL GAS PRODUCTION IN THE IEA; THIS COULD RESULT IN INCREASED OIL IMPORTS BY IEA MEMBERS OF 132 MTOE (2.6 MMBD).

(B) GAS IMPORTS

IEA COUNTRIES EXPECT NATURAL GAS IMPORTS TO INCREASE FROM 8.0 MTOE IN 1975 TO 112 MTOE IN 1985. SOME OF THIS GAS WILL COME FROM TRADITIONAL SOURCES VIA PIPELINE AND FOR WHICH MEMBER COUNTRIES ALREADY HAVE LONG-TERM CONTRACTS. A LARGE PORTION OF THE EXPECTED IMPORTS WILL BE IN THE FORM OF LNG. THERE IS CONSIDERABLE DOUBT WHETHER (A) ALL IEA COUNTRIES HAVE THE FINANCIAL RESOURCES TO INVEST IN THE NECESSARY INFRASTRUCTURE TO ABSORB THESE IMPORTS, (B) THE ECONOMICS OF LNG HAVE PROVEN ATTRACTIVE TO THE PRODUCING AND CONSUMING COUNTRIES, AND (C) THE NUMBER OF LIQUEFACTION PLANTS IN OPERATION OR PLANNED IS SUFFICIENT TO PROVIDE THE PROJECTED LNG IMPORTS. THE SLT CONSIDERS THAT APPROXIMATELY 47 MTOE OF LNG IMPORTS ARE AT RISK WHICH COULD RESULT IN INCREASED IEA OIL IMPORTS OF 1 MMBD BY 1985.

3. OIL

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IEA OIL PRODUCTION IS EXPECTED TO INCREASE FROM 591 MTOE IN 1975 TO 940 MTOE IN 1985. MOST OF THIS INCREASE PRODUCTION WILL COME FROM THE NORTH SEA AND ALASKA. THE SLT CONSIDERED PROJECTIONS OF OIL PRODUCTION BY 1985 FROM THE OUTER CONTINENTAL SHELF (OCS), ENHANCED RECOVERY METHODS, AND FRONTIER AREAS AS BEING OPTIMISTIC AND CONCLUDED THAT OIL PRODUCTION WILL PROBABLY AMOUNT TO 815 MTOE, THUS INCREASING IEA OIL IMPORTS BY 125 MTOE (2.5 MMBD) BY 1985.

4. SOLID FUELS

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IEA COUNTRIES PLAN TO INCREASE SOLID FUEL PRODUCTION FROM 606 MTOE IN 1975 TO 817 MTOE IN 1985. COAL PRODUCTION IN MANY COUNTRIES, E.G. JAPAN, GERMANY AND BELGIUM, REQUIRES GOVERNMENT INTERVENTION IN THE FORM OF SUBSIDIES TO REMAIN VIABLE, WHILE THE MAIN UNCERTAINTY REGARDING INCREASED PRODUCTION AND INSTALLATION OF COAL-FIRED POWER STATIONS IN TURKEY AND GREECE IS FINANCING. THE UNITED STATES AND CANADA, ON THE OTHER HAND, ARE CONSTRAINED BY ENVIRONMENTAL AND INFRASTRUCTURE CONSIDERATIONS. THE SLT CONCLUDED THAT COAL PRODUCTION ESTIMATES WERE ACHIEVABLE, AND COULD IN FACT BE IMPROVED.

WHILE COAL IS THE FUEL WITH THE MOST POTENTIAL FOR INTRA-IEA TRADE, LITTLE INCREASE IN COAL IMPORTS IS EXPECTED BY IEA MEMBER COUNTRIES. IN 1975 SOME 90 MTOE OF COAL WAS IMPORTED WHICH IS EXPECTED TO INCREASE TO 142 MTOE IN 1985, THE BULK OF WHICH IS EXPECTED TO BE METALLURGICAL COAL. IEA GOVERNMENTS HAVE NOT YET DECIDED TO HELP OVERCOME EXISTING OBSTACLES TO INCREASED STEAM COAL PRODUCTION AND TRADE. THE SLT CONSIDERS THAT THE RELATIVELY MODEST LEVEL OF STEAM COAL TRADE PROJECTED FOR 1985, GIVEN TOTAL IEA COAL RESOURCES, COULD EASILY BE ACHIEVED.

5. HYDRO-ELECTRICITY

IEA MEMBER GOVERNMENTS PLAN TO INCREASE HYDRO/ GEOTHERMAL ELECTRICITY FROM 220 MTOE IN 1975 TO 287 MTOE BY 1985, ASSUMING AVERAGE CLIMATIC CONDITIONS. SUCH PROJECTIONS APPEAR REASONABLE AND ATTAINABLE.

6. INTERFUEL SUBSTITUTION

MANY COUNTRIES HAVE A STRONG INTERFUEL SUBSTITUTION PROGRAM REQUIRING ALL NEW BASE LOAD ELECTRICITY PLANTS TO BE (A) COAL FIRED, (B) NUCLEAR POWERED, (C) HYDRO POWERED, OR (D) DUAL FIRED. OTHER IEA COUNTRIES STILL ALLOW CONSTRUCTION OF NEW OIL-FIRED POWER STATIONS AND SHOW NO PREFERENCE REGARDING THE USE OF FUELS FOR

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GENERATING ELECTRICITY OR INDUSTRIAL USE.

7. ALTERNATIVE STRATEGIES

THE REVIEW CONFIRMED THAT FEW IEA COUNTRIES HAVE ANY REASONABLE FALL-BACK OR ALTERNATIVE ENERGY STRATEGY IF ONE OR MORE ELEMENTS OF THE OVERALL ENERGY PLAN ARE UNSUCCESSFUL. MOST COUNTRIES WILL SIMPLY INCREASE THE LEVEL OF OIL IMPORTS.

8. DEMAND ESTIMATES

THE SLT DID NOT ATTEMPT TO REVISE SUBSTANTIALLY ENERGY DEMAND PROJECTIONS BY MEMBER COUNTRIES SINCE (A) SUCH PROJECTIONS ARE DRIVEN BY GDP GROWTH ESTIMATES MADE BY MEMBER GOVERNMENTS, (B) QUANTIFICATION OF THE EFFECT OF SPECIFIC CONSERVATION MEASURES IS EXTREMELY DIFFICULT AND (C) NOT ENOUGH INFORMATION COULD BE ASCERTAINED TO MAKE SUCH ANALYTIC JUDGEMENTS, E.G. NUMBER AND MIX OF RESIDENTIAL DWELLINGS. MOREOVER, THE DEMAND PROJECTIONS INCLUDE NON-ENERGY USES OF ENERGY RESOURCES. CONSEQUENTLY, THE DISCUSSION AND ANALYSIS WHICH FOLLOW SHOULD BE VIEWED AS A MODEST FIRST EFFORT IN A DIFFICULT AREA; FURTHER TECHNICAL WORK WILL BE REQUIRED.

SOME GOVERNMENT ESTIMATES ASSUME MAJOR STRUCTURAL READJUSTMENT OF DEMAND TO PREVAILING ENERGY PRICE LEVELS AND CONSERVATION MEASURES BY 1985. PROJECTED 1985 IEA DEMAND FOR TOTAL PRIMARY ENERGY IS ABOUT 94 MMBD (4,700 MTOE). TABLE 1 SHOWS THE RELATIONSHIP BETWEEN ARNUAL GDP AND TPE GROWTH RATES IMPLICIT IN COUNTRY SUBMISSIONS FOR THE PERIODS 1968-1973, AND 1975-1985, AND THE TPE/CAPITA FOR EACH MEMBER COUNTRY IN 1975.

TPE GROWTH IMPLICIT IN COUNTRY SUBMISSIONS IS 4.16 PERCENT ANNUALLY (1975-85) COMPARED TO THE HISTORICAL TPE GROWTH RATE OF 5.4 PERCENT DURING THE PERIOD 1968-73. FOR THE PERIOD 1968-1975, THE ANNUAL GROWTH OF TPE FOR ALL IEA COUNTRIES WAS 3.3 PERCENT.

IF THE IEA COUNTRIES WERE TO ACHIEVE ONLY HALF OF THE PROJECTED REDUCTION IN TPE GROWTH, WHILE MAINTAINING

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GDP GROWTH OBJECTIVES, BY 1985 ENERGY DEMAND WOULD AMOUNT TO 5,026 MTOE (4.8 PERCENT GROWTH RATE). AT LEAST 50 PERCENT OF THIS INCREASE WOULD PROBABLY BE MET BY OIL BASED SHIFTS IN FUEL CONSUMPTION PATTERNS ADJUSTED FOR EXPECTED SHORTFALLS IN THE AVAILABILITY OF SOLID FUELS, GAS, AND NUCLEAR POWER. IEA INCREASED OIL IMPORTS BY 1985 IMPLIED BY THIS EFFECT WOULD BE APPROXIMATELY 162 MTOE (3.2 MMBD).

TABLE 1: CDP AND TPE PARAMETERS

COUNTRY	TPE ANNUAL GROWTH (1968-1973)	TPE ANNUAL GROWTH 1975-1985	TPE/ GDP ANNUAL GROWTH CAPITA 1975
AUSTRIA	1.00	0.9	3.08
BELGIUM	0.84	1.1	4.31

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DENMARK 0.98 0.24 3.61
FRG 1.09 0.9 3.96
GREECE 1.53 1.16 1.33
IRELAND 0.85 1.86 2.19
ITALY 1.63 1.06 2.30
NETHERLANDS# 1.77 1.27 4.33
NORWAY# 1.27 0.74 4.70
SPAIN 1.34 1.26 1.76
SWEDEN 1.09 1.3 5.67
SWITZERLAND 1.23 1.55 3.52
TURKEY 1.47 1.16 0.65
U.K.# 0.81 0.58 3.63
CANADA# 1.33 0.88 8.36
U.S.# 1.36 0.77 7.92
JAPAN 0.95 1.06 3.12
NEW ZEALAND 1.22 1.51 3.32
#THE ASTERISKED COUNTRIES ARE SIGNIFICANT PRODUCERS OF OIL OR GAS; CONSEQUENTLY, A PORTION OF THEIR GDP GROWTH IS ATTRIBUTABLE TO INTENSIVE OIL OR GAS DEVELOPMENT.

(THE FOLLOWING COUNTRIES FORECAST DIFFERING AVERAGE ANNUAL GDP GROWTH RATES FOR THE PERIODS 1975-80 AND

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1980-85.

GREECE: 6.5 PERCENT THRU 80;6.0 PERCENT THRU 85.
IRELAND: 3.6 PERCENT THRU 80; 4.0 PERCENT THRU 85.
THE
NETHERLANDS:3.7 PERCENT THRU 80; 3.0 PERCENT THRU 85.
NORWAY: 7.0 PERCENT THRU 80; 3.8 PERCENT THRU 85.
SWEDEN: 2.9 PERCENT THRU 80; 3.2 PERCENT THRU 85.
UK: 4.5 PERCENT THRU 80; 3.0 PERCENT THRU 85.
CANADA: 5.4 PERCENT THRU 80; 4.4 PERCENT THRU 85.
NEW ZEALAND:2.8 PERCENT THRU 80; 3.4 PERCENT THRU 85.)

C. OIL SUPPLY AVAILABLE

IT SHOULD BE STRESSED THAT THERE ARE CONSIDERABLE UNCERTAINTIES SURROUNDING FUTURE PROJECTIONS OF THE PRODUCTIVE CAPACITY AND SUPPLY BEHAVIOUR OF OPEC MEMBERS. THIS IS PARTICULARLY TRUE OF SAUDI ARABIA.

OPEC'S FUTURE SUPPLY RESPONSE WILL BE CONDITIONED BY:

- GEOLOGICAL FACTORS (RESERVES, TECHNOLOGY, SUCCESS OF EXPLORATION PROGRAMS, SECONDARY RECOVERY PROGRAMS);
- ECONOMIC FACTORS (OIL PRICES, CAPITAL COSTS, MARKET CONDITIONS, THE DEVELOPMENT PLANS AND REVENUE NEEDS OF OPEC COUNTRIES); AND
- POLITICAL FACTORS (CHANGING GOALS AND ASPIRATIONS OF OPEC, POLITICAL OBJECTIVES OF INDIVIDUAL MEMBER COUNTRIES, THE TERMS AND CONDITIONS OF ACCESS FOR FOREIGN OIL COMPANIES, THE ATTITUDE OF INDIVIDUAL OPEC

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COUNTRIES TOWARDS MEETING POSSIBLE ADDITIONAL EXTERNAL DEMANDS FOR OIL).

WHILE RECOGNIZING THE CONSIDERABLE UNCERTAINTIES SURROUNDING EACH OF THESE FACTORS, THE SLT DECIDED THAT IT WOULD BASE ITS ANALYSIS ON THE SECRETARIAT ESTIMATES AND AGREED TO EXAMINE THIS MATTER FURTHER.

1. ESTIMATED OPEC OIL PRODUCTION

FOLLOWING CLOSE CONSULTATIONS WITH OIL COMPANIES

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AND GOVERNMENT OFFICIALS, THE PHYSICAL OIL PRODUCTION CAPACITY OF OPEC COUNTRIES BY 1985 IS ESTIMATED AT 2200 MTOE (44 MMBD). HOWEVER, THE OPEC'S PREFERRED LEVEL OF OIL PRODUCTION, TAKING INTO ACCOUNT POLITICAL AND ECONOMIC CONSIDERATIONS, IS ESTIMATED AT ABOUT 35 MMBD (1750 MTOE). THE SECRETARIAT'S PAPER FROM WHICH THESE ESTIMATES ARE DRAWN IS AVAILABLE (IEA/SLT(77)42).

2. OTHER DEMAND FOR OPEC OIL

TOTAL NON-IEA DEMAND FOR OIL IMPORTS AND OPEC CONSUMPTION (OPEC INTERNAL CONSUMPTION IS ESTIMATED AT 3.5 MMBD IN 1985. NON-IEA DEMAND FOR OIL WAS THE SUBJECT OF A SECRETARIAT STUDY WHICH HAS BEEN CIRCULATED AS IEA/SLT(77)46.) PLUS TOTAL WORLD PURCHASES OF BUNKERS IS EXPECTED TO FALL WITHIN A RANGE OF 11 TO 13 MMBD (550 TO 650 MTOE) BY 1985. THE PRINCIPAL SOURCE OF UNCERTAINTY WITHIN THIS RANGE IS THE ABILITY OF THE OIL IMPORTING DEVELOPING COUNTRIES TO FINANCE INDIGENOUS ENERGY PROJECTS; THERE IS ALSO SOME CONCERN ABOUT THE LIKELY LEVELS OF ENERGY PRODUCTION AND NET EXPORT CAPACITY OF THE CENTRALLY PLANNED ECONOMIES.

D. BALANCE BETWEEN SUPPLY AND DEMAND OF WORLD OIL

BASED ON THE SLT REVIEW, IEA MEMBER COUNTRY DEMAND FOR IMPORTED OIL BY 1985 COULD RANGE FROM 31 TO 36 MMBD (1550) TO 1800 MTOE). THIS DEMAND ALONE COULD EXCEED THE MOST LIKELY LEVEL OF OPEC PRODUCTION BY 1985. WHEN THE NET OIL IMPORT POSITIONS OF NON-IEA MEMBERS OF OECD, NON-OPEC, AND CENTRALLY CONTROLLED ECONOMIES ARE ADDED TO THE INTERNAL CONSUMPTION OF OPEC MEMBERS AND ALL BUNKERS, WORLD DEMAND FOR OPEC OIL WILL CERTAINLY BE MORE THAN 42 MMBD (2100 MTOE) AND COULD APPROACH 49 MMBD (2450 MTOE). SUCH A PROJECTED WORLD DEMAND FOR OIL IMPLIES THAT THE RELATIVE DEPENDENCE OF IEA COUNTRIES ON OPEC OIL IS LIKELY TO INCREASE SO SUBSTANTIALLY BY 1985 THAT UNLESS ENERGY POLICIES NOW IN PLACE IN IEA COUNTRIES ARE SIGNIFICANTLY REINFORCED, DEMAND FOR IMPORTED OIL AT PRESENT REAL PRICES WILL EXCEED THE

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AMOUNT WHICH OPEC COUNTRIES ARE EXPECTED TO BE WILLING TO SUPPLY AND COULD EVEN EXCEED THE AMOUNT WHICH THEY

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ARE CURRENTLY ESTIMATED TO BE TECHNICALLY CAPABLE OF PRODUCING. IN THIS SITUATION, UNLESS OPEC COUNTRIES' PRODUCTION EXCEEDS CURRENT ESTIMATES, AN UNSATISFIED

DEMAND FOR OIL WILL EMERGE, ACCOMPANIED INEVITABLY BY MUCH HIGHER REAL PRICES. THE ALTERNATIVE WOULD BE A LACK OF SUFFICIENT SUPPLY TO MEET EXPECTED DEMAND. IN EITHER CASE, THE IMPACT ON ECONOMIC ACTIVITY WOULD BE SUBSTANTIAL.

LINES OF FUTURE ACTION

IN ORDER TO IMPROVE THE SUPPLY/DEMAND BALANCE WHICH EMERGES FROM THE FOREGOING ANALYSIS, THE SLT, ON THE BASIS OF ITS WORK TO DATE, SUGGESTS TO THE GOVERNING BOARD THAT PARTICIPATING GOVERNMENTS SHOULD BE ASKED TO CONSIDER STRENGTHENING ENERGY POLICIES IN A MANNER SO AS TO ENSURE ADEQUATE EQUIVALENCE OF EFFORTS AMONG MEMBER COUNTRIES BY ADOPTING THE FOLLOWING GENERAL LINES OF POLICY ACTION:

(I) TO ENDORSE NATIONAL ENERGY PROGRAMS AND/OR POLICIES WHICH INCLUDE THE SPECIFIC OBJECTIVE OF REDUCING DEPENDENCE ON IMPORTED OIL. THE PERFORMANCE OF PARTICIPATING COUNTRIES IN ACHIEVING SUCH PROGRAMS AND/OR POLICIES SHOULD BE REVIEWED IN THE IEA.

(II) TO DEVELOP FALLBACK ENERGY STRATEGIES RATHER THAN INCREASING OIL IMPORTS TO THE EXTENT THAT ELEMENTS IN NATIONAL ENERGY PROGRAMS ARE NOT SUCCESSFUL.

(III) TO ALLOW ENERGY PRICES TO REACH WORLD LEVELS AS RAPIDLY AS POSSIBLE.

(IV) TO GIVE ENERGY CONSERVATION MUCH HIGHER PRIORITY AND RESOURCES THAN NOW GIVEN BY MOST COUNTRIES.

(V) TO ADOPT AND IMPLEMENT A BASIC SET OF CONSERVATION POLICIES, INCLUDING SPECIFIC MEASURES IN INDUSTRIAL, RESIDENTIAL/COMMERCIAL, TRANSPORT AND ENERGY SECTORS ALONG THE LINES DESCRIBED IN ANNEX A.

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(VI) OVER TIME, TO SHIFT FROM DEPENDENCE ON OIL TOWARD INCREASED RELIANCE ON OTHER ENERGY SOURCES. TO REINFORCE THIS SHIFT, ALL NEW BASE LOAD POWER STATIONS SHOULD BE NON-OIL FIRED WHERE THIS IS JUSTIFIED ECONOMICALLY AND ENVIRONMENTALLY.

(VII) TO FACILITATE THE ACCELERATED DEVELOPMENT OF OIL AND GAS, WITH REASONABLE ENVIRONMENTAL SAFEGUARDS.

(VIII) WHERE APPROPRIATE, TO INCREASE INDIGENOUS PRODUCTION AND USE OF STEAM COAL, ESPECIALLY IN THE IEA AND TO EXPAND INTERNATIONAL TRADE IN COAL. TO COOPERATE FULLY TO OVERCOME EXISTING CONSTRAINTS WHICH IMPEDE COAL UTILIZATION.

(IX) TO DEVELOP THE GAS INFRASTRUCTURE NECESSARY TO MEET PRIORITY CONSUMER REQUIREMENTS IN THE 1980'S.

(X) TO COOPERATE IN SOLVING THE PROBLEMS ASSOCI-ATED WITH THE NUCLEAR FUEL CYCLE.

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IN ADDITION, INDIVIDUAL RECOMMENDATIONS WERE MADE IN THE COUNTRY REPORTS PREPARED DURING THE SLT REVIEW. (THESE ARE ATTACHED AT ANNEX B). THE SLT AS A WHOLE HAS NOT HAD AN OPPORTUNITY TO ADEQUATELY CONSIDER THESE RECOMMENDATIONS. (A SMALL NUMBER OF COUNTRIES ARE OF THE VIEW THAT THE SLT HAS NOT YET DEVELOPED CRITERIA FOR ACHIEVING AN ADEQUATE EQUIVALENCE OF EFFORTS AMONGST PARTICIPATING COUNTRIES.)

THE SLT BELIEVES THAT IT HAS COMPLETED THREE OF THE FOUR TASKS ASSIGNED TO IT BY THE GOVERNING BOARD. THE SLT INTENDS TO CONSIDER THESE RECOMMENDATIONS FURTHER IN THE PROCESS OF COMPLETING SUGGESTIONS FOR REINFORCING MEMBER GOVERNMENTS' ENERGY POLICIES IN LIGHT OF THE GOVERNING BOARD'S CONSIDERATION OF THIS MATTER AND ANY FURTHER GUIDANCE IT DECIDES TO OFFER.

ANNEX A
SUGGESTED CONSERVATION MEASURES

INDUSTRY
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- EFFECTIVE INCENTIVES FOR ENERGY SAVING INVESTMENTS, INCLUDING ENCOURAGEMENT OF THE MANUFACTURE OF MORE DURABLE GOODS.
- ADVICE SERVICE FOR SMALL AND MEDIUM INDUSTRY AND ENERGY REPORTING, AUDITING AND TARGET SETTING FOR ENERGY INCENTIVE INDUSTRIES.

RESIDENTIAL/COMMERCIAL

- BUILDING CODES WITH MINIMUM THERMAL EFFICIENCIES FOR ALL NEW BUILDINGS.
- EFFECTIVE INCENTIVES FOR RETROFITTING EXISTING STRUCTURES.

TRANSPORT

- SIGNIFICANT TAXES ON GASOLINE AND PROGRESSIVE TAXES ON CARS ACCORDING TO WEIGHT.
- INCENTIVES FOR PUBLIC TRANSPORT.

ENERGY SECTOR

- INCENTIVES FOR DISTRICT HEATING, COMBINED PRODUCTION OF HEAT AND POWER AND FOR THE GREATER USE OF WASTE PRODUCTS AND WASTE HEAT.
- FULL COST TARIFFS FOR ELECTRICITY GENERATION, TAKING INTO ACCOUNT THE COSTS OF REPLACEMENT.

END TEXT
TURNER

UNQUOTE CHRISTOPHER

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<< END OF DOCUMENT >>

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